

KEOTA COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Keota Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Kevin Greiner	President	2006
Tom Edwards	Vice President	2008
Leslie Greiner	Board Member	2007
Jared Lyle	Board Member	2007
Robert Romoser	Board Member	2008

Board of Education  
(After September 2006 Election)

Tom Edwards	President	2008
Leslie Greiner	Vice President	2007
Jared Lyle	Board Member	2007
Robert Romoser	Board Member	2008
Ryan Clarahan	Board Member	2009

School Officials

Todd Abrahamson	Superintendent	2007
Marlene Stoutner	District Secretary/Treasurer and Business Manager	2007
Michael Neary	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Keota Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Keota Community School District, Keota, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keota Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008 on our consideration of Keota Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keota Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Keota Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,942,770 in fiscal 2006 to \$2,939,523 in fiscal 2007, while General Fund expenditures increased from \$3,104,079 in fiscal 2006 to \$3,155,259 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$491,348 in fiscal 2006 to \$237,909 in fiscal 2007, a 51.6% decrease from the prior year. The District also transferred \$37,703 to the Debt Service Fund.
- The decrease in General Fund revenues was attributable to a decrease in state sources in fiscal 2007. The increase in expenditures was due primarily to an increase in instruction and other expense functional areas.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Keota Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Keota Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Keota Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***Keota Community School District Annual Financial Report***

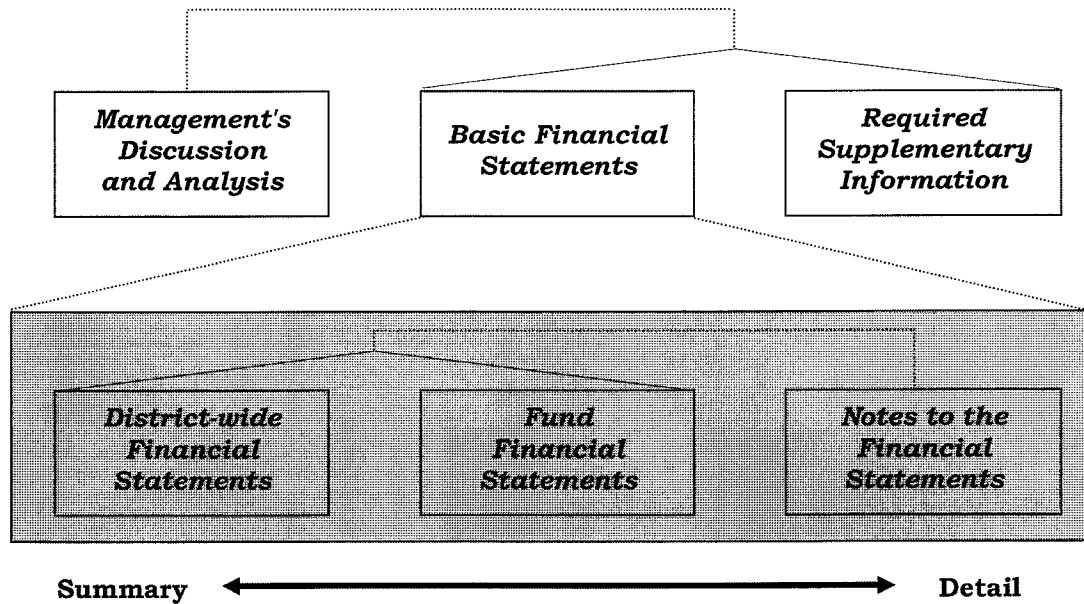


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the



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District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 3,487,004	2,598,922	610	12,845	3,487,614	2,611,767	33.53%
Capital assets	3,388,669	3,530,797	13,371	14,451	3,402,040	3,545,248	-4.04%
Total assets	6,875,673	6,129,719	13,981	27,296	6,889,654	6,157,015	11.90%
Long-term obligations	2,541,641	2,751,911	0	0	2,541,641	2,751,911	-7.64%
Other liabilities	2,721,900	1,606,102	3,226	680	2,725,126	1,606,782	69.60%
Total liabilities	5,263,541	4,358,013	3,226	680	5,266,767	4,358,693	20.83%
Net assets:							
Invested in capital assets, net of related debt	847,028	759,438	13,371	14,451	860,399	773,889	11.18%
Restricted	474,005	451,075	0	0	474,005	451,075	5.08%
Unrestricted	291,099	561,193	(2,616)	12,165	288,483	573,358	-49.69%
Total net assets	\$ 1,612,132	1,771,706	10,755	26,616	1,622,887	1,798,322	-9.76%

The District's combined net assets decreased by 9.76%, or \$175,435, compared to the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The invested in capital assets, net of related debt increased \$86,510, or 11.18% over the prior year.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$22,930, or 5.08% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$284,875, or 49.69%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 255,193	226,807	85,949	86,917	341,142	313,724	8.74%
Operating grants and contributions and restricted interest	422,802	399,529	41,179	44,627	463,981	444,156	4.46%
General revenues:							
Property tax	1,638,460	1,798,437	0	0	1,638,460	1,798,437	-8.90%
Local option sales and service tax	214,885	177,551	0	0	214,885	177,551	21.03%
Unrestricted state grants	970,427	996,831	0	0	970,427	996,831	-2.65%
Other	29,649	18,843	201	305	29,850	19,148	55.89%
Total revenues	3,531,416	3,617,998	127,329	131,849	3,658,745	3,749,847	-2.43%
Program expenses:							
Governmental activities:							
Instructional	2,209,275	2,129,176	0	0	2,209,275	2,129,176	3.76%
Support services	1,049,287	1,084,302	0	0	1,049,287	1,084,302	-3.23%
Non-instructional programs	0	4,492	144,190	139,616	144,190	144,108	0.06%
Other expenses	432,428	400,831	0	0	432,428	400,831	7.88%
Total expenses	3,690,990	3,618,801	144,190	139,616	3,835,180	3,758,417	2.04%
Change in net assets before capital contributions	(159,574)	(803)	(16,861)	(7,767)	(176,435)	(8,570)	1958.75%
Capital contributions	0	0	1,000	0	1,000	0	#DIV/0!
Change in net assets	(159,574)	(803)	(15,861)	(7,767)	(175,435)	(8,570)	1947.08%
Net assets beginning of year	1,771,706	1,772,509	26,616	34,383	1,798,322	1,806,892	-0.47%
Net assets end of year	\$ 1,612,132	1,771,706	10,755	26,616	1,622,887	1,798,322	-9.76%

In fiscal 2007, property tax and unrestricted state grants account for 73.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 99.8% of the revenue from business type activities.

The District's total revenues were approximately \$3.66 million of which \$3.53 million was for governmental activities and \$.13 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 2.43% in revenues and a 2.04% increase in expenses. The increase in expenses was related to the increase in other costs during the year.

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## Governmental Activities

Revenues for governmental activities were \$3,531,416 and expenses were \$3,690,990.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 2,209,275	2,129,176	3.76%	1,643,698	1,609,037	2.15%
Support services	1,049,287	1,084,302	-3.23%	1,049,287	1,084,302	-3.23%
Non-instructional programs	0	4,492	-100.00%	0	4,492	-100.00%
Other expenses	432,428	400,831	7.88%	320,010	294,634	8.61%
Totals	\$ 3,690,990	3,618,801	1.99%	3,012,995	2,992,465	0.69%

- The cost financed by users of the District's programs was \$255,193.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$422,802.
- The net cost of governmental activities was financed with \$1,638,460 in property tax, \$214,885 in local option sales and services tax, \$970,472 in unrestricted state grants and \$29,649 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$127,329, representing a 3.4% decrease over the prior year, while expenses totaled \$144,190, a 3.3% increase over the prior year. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Keota Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$665,969, compared to last year's ending fund balances of \$908,837. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the decrease in the District's General Fund balance.

## Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors:
  - Decrease in state aid grants resulted in a decrease of revenues.
  - The decrease in revenues along with the increase in expenditures, allowed in the General Fund balance to decrease \$253,439.

- The Capital Projects Fund balance decreased from \$333,853 in fiscal 2006 to \$327,706 in fiscal 2007. The District received \$214,885 in local option sales and service tax during fiscal 2007.

### Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$26,616 at June 30, 2006 to \$10,755 at June 30, 2006, representing a decrease of 60%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$79,700 less than budgeted revenues, a variance of 2.14%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$3,402,040, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.04% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$143,458.

The original cost of the District's capital assets was \$5,792,788. Governmental funds account for \$5,737,798 with the remainder of \$54,990 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$69,738 at June 30, 2007, compared to \$107,556 reported at June 30, 2006. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation							
	Governmental		Business-Type		Total		Total	
	Activities		Activities		School District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2007	2006	2007	2006	2007	2006	2006-07	
Land	\$ 12,310	12,310	0	0	12,310	12,310	0.00%	
Buildings	3,306,621	3,410,931	0	0	3,306,621	3,410,931	-3.06%	
Machinery and equipment	69,738	107,556	13,371	14,451	83,109	122,007	-31.88%	
Total	\$ 3,388,669	3,530,797	13,371	14,451	3,402,040	3,545,248	-4.04%	

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## Long-Term Debt

At June 30, 2007, the District had \$2,541,641 in general obligation and other long-term debt outstanding. This represents a decrease of 7.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,505,000 at June 30, 2007.

The District had outstanding bus loan indebtedness at June 30, 2007 of \$36,641.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 2,505,000	2,680,000	-6.5%
Bus loan	36,641	71,911	-49.0%
Totals	<u>\$ 2,541,641</u>	<u>2,751,911</u>	<u>-7.6%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District is still in a declining position with enrollment.
- Allowable growth set at 4% is still not keeping up with the increased cost of living. This coupled with enrollment decline continues to negatively impact the District's spending authority.
- The budget guarantee decline continues to plague our District.
- The uncertainty from year to year at the state level will affect future projections of the District's stability.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marlene Stoutner, District Board Secretary, Keota Community School District, P.O. Box 88, Keota, Iowa, 52248.

BASIC FINANCIAL STATEMENTS

KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 968,029	0	968,029
Other	630,817	0	630,817
Receivables:			
Property tax:			
Delinquent	13,169	0	13,169
Succeeding year	1,628,475	0	1,628,475
Income surtax	117,699	0	117,699
Accounts	91,485	94	91,579
Accrued interest - ISCAP(Note 4)	10,221	0	10,221
Due from other governments	27,109	0	27,109
Inventories	0	516	516
Capital assets, net of accumulated depreciation(Note 5)	3,388,669	13,371	3,402,040
<b>Total Assets</b>	<b>6,875,673</b>	<b>13,981</b>	<b>6,889,654</b>
<b>Liabilities</b>			
Excess of warrants issued over bank balance	0	2,452	2,452
Accounts payable	90,780	36	90,816
ISCAP warrants payable(Note 4)	970,000	0	970,000
ISCAP accrued interest payable(Note 4)	8,780	0	8,780
ISCAP unamortized premium	5,301	0	5,301
Accrued interest payable	18,564	0	18,564
Deferred revenue:			
Succeeding year property tax	1,628,475	0	1,628,475
Unearned revenue	0	738	738
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	185,000	0	185,000
Bus loan	36,641	0	36,641
Portion due after one year:			
General obligation bonds payable	2,320,000	0	2,320,000
<b>Total Liabilities</b>	<b>5,263,541</b>	<b>3,226</b>	<b>5,266,767</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	847,028	13,371	860,399
Restricted for:			
Debt service	2,013	0	2,013
Talented and gifted	34,081	0	34,081
Additional day	906	0	906
Professional development	7,994	0	7,994
Market factor	2,964	0	2,964
Capital projects	327,706	0	327,706
Management levy	25,200	0	25,200
Physical plant and equipment levy	44,842	0	44,842
Other special revenue purposes	28,299	0	28,299
Unrestricted	291,099	(2,616)	288,483
<b>Total Net Assets</b>	<b>\$ 1,612,132</b>	<b>10,755</b>	<b>1,622,887</b>

SEE NOTES TO FINANCIAL STATEMENTS.



KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 1,531,236	107,280	310,384	(1,113,572)	0	(1,113,572)
Special instruction	217,172	0	0	(217,172)	0	(217,172)
Other instruction	460,867	147,913	0	(312,954)	0	(312,954)
	2,209,275	255,193	310,384	(1,643,698)	0	(1,643,698)
Support services:						
Student services	35,443	0	0	(35,443)	0	(35,443)
Instructional staff services	110,642	0	0	(110,642)	0	(110,642)
Administration services	435,309	0	0	(435,309)	0	(435,309)
Operation and maintenance of plant services	305,326	0	0	(305,326)	0	(305,326)
Transportation services	162,567	0	0	(162,567)	0	(162,567)
	1,049,287	0	0	(1,049,287)	0	(1,049,287)
Other expenditures:						
Facilities and acquisitions	97,894	0	0	(97,894)	0	(97,894)
Long-term debt interest	117,806	0	0	(117,806)	0	(117,806)
AEA flowthrough	112,418	0	112,418	0	0	0
Depreciation(unallocated)*	104,310	0	0	(104,310)	0	(104,310)
	432,428	0	112,418	(320,010)	0	(320,010)
Total governmental activities	3,690,990	255,193	422,802	(3,012,995)	0	(3,012,995)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	144,190	85,949	41,179	0	(17,062)	(17,062)
Total business-type activities	144,190	85,949	41,179	0	(17,062)	(17,062)
Total	\$ 3,835,180	341,142	463,981	(3,012,995)	(17,062)	(3,030,057)
General Revenues:						
Local tax for:						
General purposes			\$ 1,472,624	0	1,472,624	
Debt Service			116,838	0	116,838	
Capital outlay			48,998	0	48,998	
Local option sales and services tax			214,885	0	214,885	
Unrestricted state grants			970,427	0	970,427	
Unrestricted investment earnings			29,649	201	29,850	
Total general revenues			2,853,421	201	2,853,622	
Changes in net assets before capital contributions			(159,574)	(16,861)	(176,435)	
Capital contributions			0	1,000	1,000	
Changes in net assets			(159,574)	(15,861)	(175,435)	
Net assets beginning of year			1,771,706	26,616	1,798,322	
Net assets end of year			\$ 1,612,132	10,755	1,622,887	

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments				
ISCAP(Note 4)	\$ 968,029	0	0	968,029
Other	292,701	238,075	100,041	630,817
Receivables:				
Property tax:				
Delinquent	11,232	0	1,937	13,169
Succeeding year	1,384,536	0	243,939	1,628,475
Income surtax	117,699	0	0	117,699
Accounts	201	89,631	1,653	91,485
Accrued interest - ISCAP(Note 4)	10,221	0	0	10,221
Due from other governments	27,109	0	0	27,109
<b>Total Assets</b>	<b>\$ 2,811,728</b>	<b>327,706</b>	<b>347,570</b>	<b>3,487,004</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 87,503	0	3,277	90,780
ISCAP warrants payable(Note 4)	970,000	0	0	970,000
ISCAP accrued interest payable(Note 4)	8,780	0	0	8,780
ISCAP unamortized premium	5,301	0	0	5,301
Deferred revenue:				
Succeeding year property tax	1,384,536	0	243,939	1,628,475
Income surtax	117,699	0	0	117,699
Total liabilities	2,573,819	0	247,216	2,821,035
Fund balances:				
Reserved for:				
Debt service	0	0	2,013	2,013
Talented and gifted	34,081	0	0	34,081
Additional day	906	0	0	906
Professional development	7,994	0	0	7,994
Market factor	2,964	0	0	2,964
Unreserved	191,964	327,706	98,341	618,011
Total fund balances	237,909	327,706	100,354	665,969
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,811,728</b>	<b>327,706</b>	<b>347,570</b>	<b>3,487,004</b>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

<b>Total fund balances of governmental funds (page 15)</b>	\$ 665,969
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	3,388,669
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	117,699
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(18,564)
Long-term liabilities, including general obligation bonds and bus loan, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,541,641)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 1,612,132</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,403,961	214,885	220,828	1,839,674
Tuition	107,280	0	0	107,280
Other	35,157	3,968	138,437	177,562
State sources	1,277,121	0	104	1,277,225
Federal sources	116,004	0	0	116,004
Total revenues	2,939,523	218,853	359,369	3,517,745
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	1,531,236	0	0	1,531,236
Special instruction	217,172	0	0	217,172
Other instruction	337,153	0	123,714	460,867
	2,085,561	0	123,714	2,209,275
Support services:				
Student services	35,443	0	0	35,443
Instructional staff services	110,642	0	0	110,642
Administration services	420,170	0	15,139	435,309
Operation and maintenance of plant services	266,276	0	39,050	305,326
Transportation services	124,749	0	0	124,749
	957,280	0	54,189	1,011,469
Other expenditures:				
Facilities acquisitions	0	0	97,894	97,894
Long-term debt:				
Principal	0	0	210,270	210,270
Interest	0	0	119,287	119,287
AEA flowthrough	112,418	0	0	112,418
	112,418	0	427,451	539,869
Total expenditures	3,155,259	0	605,354	3,760,613
Excess(deficiency) of revenues over(under) expenditures	(215,736)	218,853	(245,985)	(242,868)
Other financing sources(uses):				
Transfers in	0	0	262,703	262,703
Transfers out	(37,703)	(225,000)	0	(262,703)
Total other financing sources	(37,703)	(225,000)	262,703	0
Net change in fund balances	(253,439)	(6,147)	16,718	(242,868)
Fund balance beginning of year	491,348	333,853	83,636	908,837
Fund balance end of year	\$ 237,909	327,706	100,354	665,969

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds(page 17) \$ (242,868)

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Depreciation expense (142,128)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 13,671

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets 210,270

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

1,481

Changes in net assets of governmental activities(page 14) \$ (159,574)

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Accounts Receivable	\$ 94
Inventories	516
Capital assets, net of accumulated depreciation (Note 5)	<u>13,371</u>
<b>Total Assets</b>	<u>13,981</u>
<b>Liabilities</b>	
Excess of warrants issued over bank balance	2,452
Accounts payable	36
Unearned revenue	<u>738</u>
<b>Total Liabilities</b>	<u>3,226</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	13,371
Unrestricted	<u>(2,616)</u>
<b>Total Net Assets</b>	<u><u>\$ 10,755</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 85,949
TOTAL OPERATING REVENUES	<u>85,949</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	42,394
Benefits	20,762
Supplies	78,954
Depreciation	1,330
TOTAL OPERATING EXPENSES	<u>143,440</u>
OPERATING LOSS	<u>(57,491)</u>
NON-OPERATING REVENUES:	
State sources	2,044
Federal sources	39,135
Interest on investments	201
TOTAL NON-OPERATING REVENUES	<u>41,380</u>
Change in net assets before other financing sources(uses)	(16,111)
Other financing sources(uses)	
Capital contributions	1,000
Loss on disposal of assets	(750)
Total other financing sources(uses)	<u>250</u>
Net loss	(15,861)
Net assets beginning of year	<u>26,616</u>
Net assets end of year	<u>\$ 10,755</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 85,744
Cash received from miscellaneous	263
Cash payments to employees for services	(63,156)
Cash payments to suppliers for goods or services	(69,876)
Net cash used in operating activities	<u>(47,025)</u>
Cash flows from non-capital financing activities:	
State grants received	2,044
Federal grants received	30,315
Net cash provided by non-capital financing activities	<u>32,359</u>
Cash flows from investing activities:	
Interest on investments	<u>201</u>
Net decrease in cash and cash equivalents	(14,465)
Cash and cash equivalents at beginning of year	<u>12,013</u>
Cash and cash equivalents at end of year	<u>\$ (2,452)</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (57,491)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	8,726
Depreciation	1,330
Decrease in inventories	316
Increase in accounts payable	36
Increase in unearned revenue	58
Net cash used in operating activities	<u>\$ (47,025)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ (2,452)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$8,726.

During the year ended June 30, 2007, the District received computer donation valued at \$1,000.

SEE NOTES TO FINANCIAL STATEMENTS.



KEOTA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Keota Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keota, Iowa, and the predominate agricultural territory in Keokuk and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Keota Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Keota Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Keokuk and Washington Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three

categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by

the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that

do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 940</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
PPEL	Capital Projects	\$ 50,000
Debt Service	Capital Projects	175,000
Debt Service	General	<u>37,703</u>
Total		<u>\$ 262,703</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/2007	1/25/2008	\$ 450,847	10,067	452,000	8,648
2007-08A	6/28/2007	6/27/2008	517,182	154	518,000	132
Total			<u>\$ 968,029</u>	<u>10,221</u>	<u>970,000</u>	<u>8,780</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07B	\$ 0	75,000	75,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Land	\$ 12,310	0	0	12,310
Total capital assets not being depreciated	12,310	0	0	12,310
Capital assets being depreciated:				
Buildings	5,204,323	0	0	5,204,323
Machinery and equipment	521,165	0	0	521,165
Total capital assets being depreciated	5,725,488	0	0	5,725,488
Less accumulated depreciation for:				
Buildings	1,793,392	104,310	0	1,897,702
Machinery and equipment	413,609	37,818	0	451,427
Total accumulated depreciation	2,207,001	142,128	0	2,349,129
Total capital assets being depreciated, net	3,518,487	(142,128)	0	3,376,359
Governmental activities capital assets, net	\$ 3,530,797	(142,128)	0	3,388,669
Business-type activities:				
Machinery and equipment	\$ 54,990	1,000	1,000	54,990
Less accumulated depreciation	40,539	1,330	250	41,619
Business-type activities capital assets, net	\$ 14,451	(330)	750	13,371



Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Transportation	\$ 37,818
	37,818
Unallocated depreciation	104,310
	<u>\$ 142,128</u>
Business-type activities:	
Food services	\$ 1,330
Total business-type activities depreciation expense	<u>\$ 1,330</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,680,000	0	175,000	2,505,000	185,000
Bus loan	71,911	0	35,270	36,641	36,641
Total	<u>\$ 2,751,911</u>	<u>0</u>	<u>210,270</u>	<u>2,541,641</u>	<u>221,641</u>

Bonds Payable

Details of the District's June 30, 2007 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

Year Ending June 30,	Bond dated March 10, 1999			
	Interest Rates	Principal	Interest	Total
2008	4.00 % \$	185,000	109,855	294,855
2009	4.10	190,000	102,455	292,455
2010	4.10	200,000	94,665	294,665
2011	4.20	205,000	86,465	291,465
2012	4.30	215,000	77,855	292,855
2013	4.35	225,000	68,610	293,610
2014	4.40	235,000	58,823	293,823
2015	4.50	245,000	48,483	293,483
2016	4.55	255,000	37,855	292,855
2017	4.65	270,000	25,855	295,855
2018	4.75	280,000	13,300	293,300
Total		<u>\$ 2,505,000</u>	<u>724,221</u>	<u>3,229,221</u>

## Bus Loan Payable

Details of the District's June 30, 2007 Bus Loan indebtedness, which are paid with General Fund monies are as follows:

Year Ending June 30,	Loans dated March 12, 2003				
	Interest Rates		Principal	Interest	Total
2008	3.85	% \$	36,641	1,061	37,702

### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$110,026, \$103,512, and \$101,350, and respectively, equal to the required contributions for each year.

### **(8) Risk Management**

Keota Community School District is a member in the Southeast Iowa Schools Health Care Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa Schools Health Care Plan (SEIS) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEIS was for the purpose of managing and funding employee benefits. SEIS provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEIS funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEIS's general and administrative expenses and insurance premiums.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEIS for the year ended June 30, 2007 were \$241,545.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEIS

will pay claims incurred before the termination date.

Keota Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$112,418 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

KEOTA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,124,516	86,400	2,210,916	2,246,967	2,246,967	(36,051)
State sources	1,277,225	2,044	1,279,269	1,363,057	1,363,057	(83,788)
Federal sources	116,004	39,135	155,139	115,000	115,000	40,139
Total revenues	3,517,745	127,579	3,645,324	3,725,024	3,725,024	(79,700)
Expenditures:						
Instruction	2,209,275	0	2,209,275	2,415,139	2,415,139	205,864
Support services	1,011,469	0	1,011,469	981,774	981,774	(29,695)
Non-instructional programs	0	143,440	143,440	184,283	184,283	40,843
Other expenditures	539,869	0	539,869	553,460	553,460	13,591
Total expenditures	3,760,613	143,440	3,904,053	4,134,656	4,134,656	230,603
Excess(deficiency) of revenues over(under) expenditures	(242,868)	(15,861)	(258,729)	(409,632)	(409,632)	(150,903)
Balance beginning of year	908,837	26,616	935,453	1,123,371	1,123,371	(187,918)
Balance end of year	\$ 665,969	10,755	676,724	713,739	713,739	(338,821)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION





KEOTA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2007

	Special Revenue Funds					Total
			Physical	Total		Other
	Manage- ment Levy	Student Activity	Plant and Equipment Levy	Special Revenue Funds	Debt Service	Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 23,118	28,488	47,447	99,053	988	100,041
Receivables:						
Property tax:						
Current year delinquent	482	0	430	912	1,025	1,937
Succeeding year	60,000	0	49,084	109,084	134,855	243,939
Accounts	1,600	53	0	1,653	0	1,653
<b>Total Assets</b>	<b>\$ 85,200</b>	<b>28,541</b>	<b>96,961</b>	<b>210,702</b>	<b>136,868</b>	<b>347,570</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	0	242	3,035	3,277	0	3,277
Deferred revenue:						
Succeeding year property tax	60,000	0	49,084	109,084	134,855	243,939
Total liabilities	60,000	242	52,119	112,361	134,855	247,216
Fund balances:						
Reserved:						
Debt Service	0	0	0	0	2,013	2,013
Unreserved	25,200	28,299	44,842	98,341	0	98,341
Total fund balances	25,200	28,299	44,842	98,341	2,013	100,354
<b>Total Liabilities and Fund Balances</b>	<b>\$ 85,200</b>	<b>28,541</b>	<b>96,961</b>	<b>210,702</b>	<b>136,868</b>	<b>347,570</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total
	Manage-	Physical	Total			Other
	ment	Plant and	Special	Debt		Nonmajor
	Levy	Student	Equipment	Revenue	Service	Governmental
	Activity	Levy	Funds			Funds
REVENUES:						
Local sources:						
Local tax	\$ 54,992	0	48,998	103,990	116,838	220,828
Other	77	120,784	15,549	136,410	2,027	138,437
State sources	26	0	23	49	55	104
TOTAL REVENUES	55,095	120,784	64,570	240,449	118,920	359,369
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	123,714	0	123,714	0	123,714
Support services:						
Administration services	14,489	0	0	14,489	650	15,139
Operation and maintenance						
of plant services	26,877	0	12,173	39,050	0	39,050
Student transportation	0	0	0	0	0	0
Other expenditures:						
Facilities acquisitions	0	0	97,894	97,894	0	97,894
Long-term debt:						
Principal	0	0	0	0	210,270	210,270
Interest	0	0	0	0	119,287	119,287
TOTAL EXPENDITURES	41,366	123,714	110,067	275,147	330,207	605,354
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)						
EXPENDITURES	13,729	(2,930)	(45,497)	(34,698)	(211,287)	(245,985)
OTHER FINANCING SOURCES:						
Transfers in	0	0	50,000	50,000	212,703	262,703
EXCESS(DEFICIENCY) OF REVENUES AND OTHER						
FINANCING SOURCES OVER(UNDER) EXPENDITURES	13,729	(2,930)	4,503	15,302	1,416	16,718
FUND BALANCE BEGINNING OF YEAR	11,471	31,229	40,339	83,039	597	83,636
FUND BALANCE END OF YEAR	\$ 25,200	28,299	44,842	98,341	2,013	100,354

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,014	2,084	1,648	1,450
Basketball	0	9,031	9,031	0
Track	0	700	700	0
Cross Country	0	380	380	0
Baseball	0	1,584	1,584	0
Volleyball	0	5,574	5,574	0
Softball	0	1,154	1,154	0
Athletics	0	1,269	1,269	0
Miscellaneous	15	546	561	0
Cheerleaders	262	640	327	575
FFA	4,414	21,320	19,727	6,007
FCCLA	2,996	1,395	2,287	2,104
Student Council	3,597	2,184	2,232	3,549
EagleRock!	0	18,954	17,848	1,106
Project Close-up	4	0	4	0
Class of 2007	503	35,040	34,367	1,176
Class of 2008	2,028	1,687	3,244	471
Class of 2009	1,744	14	0	1,758
Class of 2010	1,013	50	0	1,063
Class of 2012	0	65	0	65
Special Baseball	1,417	6,581	7,165	833
Special Boys Track	516	225	230	511
Special Volleyball	3,758	1,000	1,292	3,466
Special Girls Track	1,165	0	312	853
Special Softball	3,029	2,979	4,633	1,375
Special Boys Basketball	1,096	2,170	2,485	781
Special Girls Basketball	2,658	1,000	2,502	1,156
Tournament	0	3,158	3,158	0
Total	\$ 31,229	120,784	123,714	28,299

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax		\$ 1,839,674	1,974,821	2,003,961	1,932,155
Tuition		107,280	108,707	120,494	131,901
Other		177,562	136,943	114,698	114,780
State sources		1,277,225	1,267,901	1,312,969	1,220,613
Federal sources		116,004	128,459	134,997	139,977
Total		\$ 3,517,745	3,616,831	3,687,119	3,539,426
Expenditures:					
Current:					
Instruction:					
Regular instruction		\$ 1,531,236	1,442,892	1,492,419	1,427,249
Special instruction		217,172	281,300	256,290	525,755
Other instruction		460,867	404,984	380,720	148,884
Support services:					
Student services		35,443	37,587	42,016	41,879
Instructional staff services		110,642	124,557	103,735	48,308
Administration services		435,309	366,462	363,463	392,841
Operation and maintenance of plant services		305,326	368,869	321,058	265,770
Transportation services		124,749	148,309	128,725	118,320
Non-instructional programs		0	4,492	0	0
Other expenditures:					
Facilities acquisitions		97,894	62,900	67,612	53,254
Long-term debt:					
Principal		210,270	203,951	192,680	181,458
Interest		119,287	129,107	140,277	150,500
AEA flow-through		112,418	106,197	107,097	108,594
Total		\$ 3,760,613	3,681,607	3,596,092	3,462,812

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Keota Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keota Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 20, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keota Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Keota Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keota Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Keota Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Keota Community School District's financial statements that is more than inconsequential will not be prevented or detected by Keota Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Keota Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keota Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Keota Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Keota Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Keota Community School District and other parties to whom Keota Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keota Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

KEOTA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

KEOTA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

- II-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, exceeded the certified budget amount in the support services function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will try to monitor the budget more closely and file a timely amendment when needed.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- II-G-07 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.

- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.